

WEAK HOME SALES NUMBERS NOT WHOLE STORY

COLLEGE STATION (Real Estate Center) – Home sales statistics are likely to paint a picture of a weakening market through the end of 2010 and the first half of 2011. While it's tempting to attribute the bleak numbers to a deteriorating housing market, an economist with the Real Estate Center at Texas A&M University said that doesn't tell the whole story.

"The year-over-year decline in existing home sales will be the result of comparing months when there was no tax credit with those from a year earlier, when the tax credit was artificially increasing sales," said Dr. Mark Dotzour, the Center's chief economist.

The \$8,000 tax credit for first-time homebuyers went into effect in January 2009 and was planned to expire in November 2009. Home sales gradually started to increase after the tax credit was announced, after bottoming out in January at an annual rate just above 4.5 million sales.

Existing home sales gradually increased in 2009 as buyers and real estate agents became more familiar with the program. Sales topped an annual rate of five million in July 2009 for the first time since September 2008.

As the tax credit deadline approached, home sales spiked in September, October and November 2009. November 2009 was the peak at an annual rate of almost 6.5 million.

The tax credit was extended late in 2009 to include sales with contracts written until April 30, 2010, and closed by June 30 (extended to September 30). Initial homebuyer response to this extension was tepid, but sales picked up substantially in March, April and May 2010, when sales were up 18 percent, 28 percent and 18 percent, respectively, over the same months in 2009.

Then the process reversed itself. Pending home sales fell dramatically in May 2010, the month after the tax credits expired. This was followed by a significant drop in home sales in June and July. In Texas, July 2010 sales were down approximately 25 percent from July 2009.

Dotzour said August figures may not be much better since many buyers purchased homes before the tax incentive expired.

"When you 'bring forward' sales through tax incentives, sales will be lower after the tax credit ends," he said.

Unless Congress creates a new tax credit this fall, Dotzour said monthly sales for 2010 will likely exhibit significant variance from 2009, and a true reading of housing market conditions may not be possible until June or July 2011.

RECON

**Real Estate Center Online News
August 20, 2010**